DEPARTMENT OF THE TREASURY

Fiscal Year 2005 Budget Request

SUMMARY OF TREASURY'S BUDGET REQUEST

FY 2004:	***Treasury Program Level (Consolidated Appropriations, H.R. 2673)***	***$11.246 billion***
	Proposed Rescission	***- .066 billion***
	Net Adjusted Program Level in FY 2004	***$11.180 billion***
FY 2005:	***Total Treasury Program Level Request***	***$11.680 billion***

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The President's Budget FY 2005 Request for the Department of the Treasury reflects an increase of 4.5% over the current FY 2004 appropriated level for Treasury as reflected in the FY 2004 Consolidated Appropriations bill (H.R. 2673). This increase reflects the President's commitment to strengthen the economy, fight the financial war on terrorism and ensure compliance with the tax laws.

HIGHLIGHTS OF TREASURY'S REQUEST

The President's proposed FY 2005 Budget supports Treasury's key role as the Federal Government's ***economic policymaker, financial manager, and revenue collector.*** After completing the divestiture of 30,000 employees pursuant to the Homeland Security Act of 2002 (P.L. 107-296), the Department is refocusing its resources on its core economic missions of promoting conditions for prosperity in the United States, fighting the financial war on terrorism, and providing taxpayers with world class service while ensuring compliance with the tax laws.

This Budget request places increased importance on achieving balance in the administration of the tax laws by maintaining taxpayer service and enhancing initiatives to curb abusive tax practices and halt the proliferation of shelters, scams, and schemes. The FY 2005 Budget proposal solidifies the Department's ability to fight the financial war on terror by increasing resources and improving use and analysis of financial intelligence. To deliver on these and other commitments, Treasury remains committed to the President's Management Agenda and the Department's performance budgeting processes to align funding with performance and results.

FY 2005 KEY PRIORITIES

Treasury's FY 2005 budget request continues the Department's recent accomplishments and highlights Treasury's commitment to:

- Make tax relief permanent to promote jobs and growth;
- Improve tax compliance by increasing audits, ensure that the tax system is fair for all, and maintain world class service;
- Modernize the nation's tax system through investments in technology;
- Fight the financial war on terror by using intelligence and other data to identify financiers of terror and freeze terrorist assets; and
- Maintain and safeguard the government's finances and our nation's financial systems and currency.

Treasury remains committed to the President's Management Agenda as a foundation for accomplishing these key priorities.

Making the Tax Cuts Permanent to Continue to Support a Growing Economy

Supports the following Treasury Strategic Objectives:
- ✓ *Stimulate economic growth and job creation*
- ✓ *Increase citizens' economic security*

The reductions in individual income tax rates under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the lower tax rates on capital gains and corporate dividends and the more liberal rules for expensing of investment under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) are essential for promoting economic growth, economic security and higher living standards for the future. If these provisions are allowed to sunset, taxes will increase: for many small businesses in 2006; on dividends and capital gains beginning in 2009, and for most taxpayers very substantially beginning in 2011. The repeal of the estate tax, which raises the cost of business investment and is particularly harmful to small businesses, is also important to a growing economy.

Uncertainty about the future of these tax changes makes it difficult for individuals and businesses alike to best plan for the future. The possibility of these higher taxes raises the cost of investment for businesses and reduces individuals' after-tax rewards to working and investing, which all dampen long-run economic growth. The Treasury Department will work to see the tax cuts made permanent.

Ensuring that the Tax System is fair for all by Maintaining World Class Service and Ensuring Compliance with the Tax Laws

Supports the following Treasury Strategic Objective:

- ✓ *Collect federal tax revenue when due, through a fair and uniform application of the law*

An important part of Treasury's mission is to help taxpayers meet their tax responsibilities while respecting taxpayer rights and maintaining fairness throughout the tax system. This responsibility is vested in the **Internal Revenue Service**, which manages the systems that service taxpayers and collect most of the revenue needed to operate the government. This responsibility entails:

- *Meeting the annual demands of processing over* 2.6 billion *tax-related documents;*
- *Processing over 129 million returns (53 million from e-file) while sending out 98 million refunds;*
- *Providing quality service on taxpayer phone calls concerning tax law and account specific questions; and*
- *Maintaining a balanced and comprehensive compliance program to ensure that all taxpayers meet their tax obligations.*

The IRS continues to work toward their mission of *"providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all."* After a period of declining enforcement resources, the IRS has stabilized and increased the amount of resources dedicated to enforcement since the beginning of this Administration. The IRS FY 2005 budget of $10.674 billion, a 4.8% increase above the FY 2004 Consolidated Appropriations level for the IRS, provides funding to improve results for its three strategic goals - customer service, enforcement, and modernization as follows:

- ***Ensure the tax laws are applied fairly and equally to all taxpayers.***

  The FY 2005 request **allocates $300 million toward enforcement initiatives** designed to curb abusive tax practices, end the proliferation of abusive tax shelters, improve methods of identifying tax fraud, identify and stop promoters of illegal tax schemes and scams, and increase the number and effectiveness of audits to ensure compliance with the tax laws. This budget will allow the IRS to apply resources to areas where non-compliance is greatest: promotions of tax schemes, misuse of offshore accounts and trusts to hide income, abusive tax shelters, underreporting of income, and failure to file and pay large amounts of employment taxes. The Administration has also proposed a number of legislative changes designed to significantly enhance current enforcement programs and prevent the marketing of abusive tax avoidance transactions. The goal of these initiatives is **ensuring that the tax system is fair for all while protecting taxpayer rights**.

- ***Maintain customer service and respect taxpayer rights*.**

  The budget **provides funding for customer service, supporting physical infrastructure, and maintaining current levels of performance.** These initiatives are designed to make filing easier; provide top quality service to taxpayers needing help with their return or account; and provide prompt, professional, improved taxpayer access and helpful treatment to taxpayers in cases where additional taxes may be due. Since 1998, the IRS has shown improvements in providing customer service. For example, in 1999, taxpayers were met with 19.4 million busy signals. In the 2003 filing season, that number dropped to less than 250 thousand. Call abandons also fell over the same period from 8.4 million to 1.1 million. Level of satisfied service increased from 51% to 80%. Moreover, almost 53 million taxpayers filed electronically (e-file) this year, an increase of 13% from last year. IRS employee satisfaction scores have increased every year since FY 1999 to the FY 2003 level of 60%.

- ***Continued Implementation of the Health Coverage Tax Credit.***

  The provisions of the Trade Act of 2002 (P.L. 107-210) chartered the Treasury Department (through the IRS) with establishing and implementing a new health coverage tax credit program in 2003. This program provides a refundable tax credit to eligible individuals for the cost of qualified health insurance for both the individual and qualifying family members. The budget provides **$35 million to continue implementation and operation of the Health Coverage Tax Credit Program.**

- ***Improve the Collection of Unpaid Taxes while Protecting Taxpayer Rights.***

  During FY 2002, using the PART, the Administration determined that the IRS Tax Collection program fails to collect a high amount of taxes due and does not effectively and consistently collect the taxes owed. In addition, there is a large and growing inventory of identified cases where the IRS still does not take further action. To realize the collection and closure of these cases, the FY 2005 budget proposes the use of **private collection agents (PCAs)** to help collect such delinquent tax debts. This initiative allows the IRS to concentrate its collection resources on more complex cases and improve the fairness of the tax system for all Americans. Historically, PCAs have proven successful with over 40 states and other federal initiatives, such as the Student Loan Program.

Modernize the nation's tax system through investments in technology

The IRS performed comprehensive studies to review its modernization efforts during the fall of 2003. From these studies, the IRS resized its modernization efforts to allow greater management focus and capacity on the most critical projects and initiatives. It also identified opportunities for the IRS to improve its management, re-engineering of business processes and implementation of new systems and technology. The Department's FY 2005 budget provides **$285 million** to continue this effort to replace current business systems and technology.

Serve as a Key Government Agency in the Financial War against Terrorism

Supports the following Treasury Strategic Objectives:

- ✓ *Disrupt and dismantle financial infrastructure of terrorists, drug traffickers and other criminals and isolate their support networks*
- ✓ *Execute the nation's financial sanctions policies*

In March 2003, the Secretary of Treasury established the **Executive Office of Terrorist Financing and Financial Crimes (EOTF/FC)** and charged it with coordinating and leading the Treasury Department's multifaceted efforts to combat terrorist financing and other financial crimes. This new office is responsible for policy guidance and oversight of the **Financial Crimes Enforcement Network (FinCEN), and the Office of Foreign Assets Control (OFAC).** It also assists the Commissioner of IRS in providing guidance to **the IRS-Criminal Investigation Division (IRS-CI).**

The Office develops and implements U.S. government strategies to combat terrorist financing domestically and internationally and develops and implements the National Money Laundering Strategy as well as other policies and programs to fight financial crimes. The office is also responsible for participating in the Department's development and implementation of U.S. government policies and regulations in support of the Bank Secrecy Act and the USA Patriot Act. In addition, it represents the United States at focused international bodies dedicated to fighting terrorist financing and financial crimes and develops U.S. government policies relating to financial crimes.

The recently enacted Intelligence Authorization Act (P.L. 108-177) created a new Assistant Secretary for Intelligence and Analysis position at Treasury. During the coming year, the Department plans to implement a structure that will integrate this new position with the existing Treasury offices and overall resources - so that the Department can continue to achieve the President's priorities and its continuing responsibilities in a post September 11th and post Homeland Security Act environment. This budget request will continue supporting that structure.

> *It is important to note that these policies and the financial war on terrorism do not stop at freezing assets, but they include a concerted effort to safeguard financial systems through the longer term establishment of effective anti-money laundering strategies and programs.*

FinCEN has a unique role in fostering interagency and global cooperation against terrorist financing. FinCEN also serves as a link between the law enforcement/intelligence communities and financial institutions and regulators in fighting domestic and international financial crimes and terrorist financing.

FinCEN's strategic analyses of domestic and worldwide money laundering developments, trends, and patterns provides U.S. policymakers a platform on which important decisions concerning terrorist threats can be made. FinCEN works toward these ends through information collection, analysis, and distribution. It also provides technology assistance and innovative, cost-effective implementation of the Bank Secrecy Act (BSA) and other Treasury authorities.

FinCEN's FY 2005 funding level reflects a 12.7% increase over the FY 2004 level reflected in the Consolidated Appropriations (H.R. 2673). As terrorist organizations and their financiers become more sophisticated in avoiding detection, this increase will allow FinCEN to:

- Improve information sharing between the financial services and law enforcement communities and enhance their ability to provide useful information to these entities regarding trends, patterns, and issues related to suspicious financial transactions and other money laundering/financial crimes which fuel terrorism and other criminal activities;

- Effectively administer additional requirements mandated by the USA Patriot Act of 2001 and subsequent regulatory requirements, including expanding the capacity to provide direct access to BSA data to meet increased demand;

- Monitor the establishment of anti-money laundering programs in all financial institutions;

- Expand the Bank Secrecy Act (BSA) to new industries and accelerate efforts to enable electronic filing of BSA data more efficiently through the Patriot Act Communications System; and

- Strengthen and expand mechanisms for the exchange of information globally to enhance the global fight against terrorism and money laundering that supports criminal activities.

OFAC administers and enforces economic sanctions and embargo programs against targeted foreign governments and foreign or domestic groups that pose threats to the national security, economy or foreign policy of the United States.

Consistent with President Bush's November 7, 2001 address, the United States continues to attack terrorists where it hurts them the most – their bank accounts.

*Since September 2001, Treasury's Office of Foreign Assets Control and our allies have frozen over **$136 million** in terrorist assets and vested $1.9 billion of frozen Iraqi assets.*

Only days after September 11, 2001, OFAC was responsible for drafting and implementing Executive Order 13224, which invoked Presidential authority contained in the International Emergency Economic Powers Act and froze the assets of 29 entities and individuals linked to Osama Bin Laden and his Al-Qaeda network. Since then, between 200 and 300 additional entities and individuals, most of them the result of OFAC research and investigation, have been identified as Specially Designated Global Terrorists under the Order.

This designation and asset blocking process has served as the spearhead of the President's financial war on terrorism.

The **Internal Revenue Service Criminal Investigation (IRS-CI) Division** specializes in analyzing complex financial information and determining whether that information indicates a violation of the tax laws. IRS-CI also provides expertise in enforcement of the money laundering laws and the Bank Secrecy Act. In addition, IRS-CI provides critical support to the Joint Terrorism Task Forces (JTTFs) and similar partnerships focused on disrupting and dismantling terrorist financing.

IRS-CI plays a critical role in supporting the fight on terrorist financing – its agents have developed unique skills and technology that support tax compliance but also benefit the war on terror and efforts to root out financial crimes. IRS-CI works in cooperation with other federal agencies to aid in the detection and tracking of financial assets used for illegal purposes and crimes as well as the false reporting of tax liability and use of tax exempt organizations to facilitate the financing of terror and other crimes.

The budget provides funding for IRS-CI to continue its efforts in supporting compliance with the tax code and in reducing the financial assets available to criminals and terrorists in cooperation with EOTF/FC, FinCEN and OFAC.

The **Treasury Forfeiture Fund (the Fund)** is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by Treasury law enforcement agencies and the United States Coast Guard. Legislation has been proposed to consolidate the Fund with the Department of Justice Assets Forfeiture Fund commencing with FY 2004. The Fund was established in October of 1992 as the successor to the Forfeiture Fund of the United States Customs Service. When the legislation for the Fund was enacted, it brought together all of Treasury law enforcement under a single forfeiture program. The member law enforcement bureaus of the Fund were the U.S. Customs Service (Customs), the U.S. Secret Service (Secret Service), the Bureau of Alcohol, Tobacco, and Firearms (ATF), and the Internal Revenue Service's Criminal Investigation (IRS-CI). These Treasury bureaus were joined by the U.S. Coast Guard of the Department of Transportation, a member of the Fund as the result of a long-standing close law enforcement relationship with Customs.

Maintain and Safeguard the Government's Finances and our Nation's Financial Systems

Supports the following Treasury Strategic Objectives:

- ✓ *Increase the reliability of the U.S. financial system*
- ✓ *Manage federal debt effectively and efficiently*
- ✓ *Make collections and payments on time and accurately, optimizing use of electronic mechanisms*
- ✓ *Optimize cash management and effectively administer the government's financial systems*
- ✓ *Provide a flexible legal and regulatory framework*
- ✓ *Increase citizens' economic security*
- ✓ *Collect federal tax revenue when due, through a fair and uniform application of the law*

Departmental Offices (DO) serves as the headquarters for the Department of the Treasury. In FY 2003, DO completed a major modernization effort, developed a new Strategic Plan for the Department, and conducted a rigorous examination of its business practices. As a result of the reorganization and the divestiture of some offices to the Department of Homeland Security, DO has refocused its resources to support Treasury's new strategic plan and core mission.

The FY 2005 budget request for DO provides funds to continue its unique role in formulating and overseeing the implementation of domestic and international financial, tax, economic, terrorist finance, and management policies of both the Department and of the Federal Government. This request also supports the President's Management Agenda, with particular emphasis on improving the Department's financial performance and moving toward an electronic government.

The **Financial Management Service (FMS)** will continue to improve the efficiency of its operations and the quality of its federal financial management and debt management operations. FMS will also continue to modernize government-wide accounting and reporting infrastructure as it progresses toward an all-electronic Treasury.

The Budget includes several proposals to increase and enhance opportunities to collect delinquent debt through the Department of the Treasury's Financial Management Service's debt collection program. The proposals would: eliminate the 10-year limitations period applicable to the offset of federal non-tax payments to collect debt owed to federal agencies; increase amounts levied from vendor payments (from 15% to 100%) to collect outstanding tax obligations; allow the Secretary of the Treasury to match information about persons who owe delinquent debt to the federal government with information contained in the Department of Health and Human Service's National Directory of New Hires; and allow the offset of federal tax refunds to collect delinquent state unemployment compensation overpayments.

The **Bureau of the Public Debt (BPD)** is continuing its management and improvement of federal borrowing and debt accounting processes. BPD will provide vital support to the processing of applications and operation of systems used for re-enforcing its mission of providing quality debt management services to financial institutions, individuals, foreign governments, and over 200 government trust funds.

The passage of the Homeland Security Act of 2002 established **the Alcohol and Tobacco Tax and Trade Bureau (TTB)** within the Department of the Treasury on January 24, 2003. This Act authorized the transfer of all the firearms, explosives, and arson functions of the Bureau of Alcohol, Tobacco and Firearms (ATF) to the Department of Justice - with the exception of the administration of the Federal excise tax on firearms and ammunition, which TTB now administers. TTB will continue to improve its collection of revenues for the government and perform crucial investigations of tax fraud and deception associated with alcohol and tobacco commodities. TTB will work to ensure the public's safety through its efforts of commodity testing and enforcement of labeling regulations for alcohol beverage products.

The **Office of the Comptroller of the Currency (OCC)** serves as the Regulator and Administrator of our National Banks. OCC charters new banking institutions only after investigation and due consideration of charter applications. The bureau supervises existing national banks through the promulgation of rules and regulations for the guidance of national banks and bank directors.

The **Office of Thrift Supervision (OTS)** charters, regulates and examines federal thrifts, cooperates in the examination and supervision of state-chartered thrifts, and reviews applications of state-chartered thrifts for conversion to federal thrifts. OTS also reviews applications for the establishment of branch offices.

The **United States Mint (Mint)** responds to the needs of retail commerce by producing a reliable supply of coinage. Equally important, the Mint will continue its major role in promoting national patriotic themes with collectable coins, such as the fifty state commemorative quarters and newly designed nickel.

The **Bureau of Engraving and Printing (BEP)** continues to redesign its paper currency to counter the trend of computer generated counterfeiting. Building on past security features, the new design, known as *NexGen*, began circulation in the $20 note in the fall of 2003, with the $50 and $100 note to follow 12 to 18 months later.

Treasury, BEP, and the Mint will conduct and deliver a study to Congress by July 1, 2004 regarding options to merge and/or streamline operations by consolidating certain functions and sharing costs between the Mint and Bureau of Engraving and Printing.

The **Office of Inspector General (OIG)** was created in 1978 by the Inspector General Act Amendments to oversee Treasury functions. The OIG conducts independent audits, investigations and reviews to help the Treasury Department accomplish its mission; improve its programs and operations; promote economy, efficiency and effectiveness; and prevent and detect fraud and abuse.

The **Inspector General for Tax Administration (TIGTA)** was created as part of the Internal Revenue Service Restructuring and Reform Act of 1998 to oversee operations at the Internal Revenue Service. TIGTA provides leadership and coordination and recommends policy for activities designed to promote economy, efficiency, and effectiveness in the administration of the internal revenue laws. TIGTA also recommends policies to prevent and detect fraud and abuse in the programs and operations of the IRS and related entities.

To maximize efficiencies and effectiveness, the Administration will submit legislation to merge the Treasury Inspector General and the Treasury Inspector General for Tax Administration into a new Inspector General office, called the Inspector General for Treasury. The new organization will have all of the same powers and authorities as its predecessors have under current law.

The **Community Development Financial Institutions Fund (CDFI)** is committed to helping the nation expand a unique network of financial services that support the nation's markets and populations that are not adequately served by traditional financial institutions. This is due in large part to centralized underwriting and a regulatory focus on safe and sound lending practices. CDFI provides grants and other incentives to attract capital and investment to these underserved, undercapitalized areas to spawn growth and development. CDFI uses various investment vehicles, programs, tax incentives and organizational requirements to ensure its goals of development are achieved. CDFI supports a network of providers in a manner that ensures they are sustainable and self-reliant.

The Administration has proposed broad reform of the supervisory system for government-sponsored enterprises (GSEs) in the mortgage market: Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. Part of this reform includes establishing a new safety and soundness regulator for the housing GSEs in the Department of the Treasury, and providing this new regulator and the Secretary with the appropriate authority to oversee effectively these large and complex enterprises. This new entity, the **Office of Housing Finance Supervision**, will serve to promote both a strong, resilient financial system and increased opportunities for affordable homeownership.